

NIO/WE  
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## WEST EUROPE

1. Post-INF Security Debate Having passed the initial deployment milestone, West European governments will focus less on NATO INF modernization itself and more on efforts to restart the arms control process. While NATO governments will fault the Soviets for their walk-out of both the INF and START negotiations, they will be eager to find arms proposals that could coax them back to the table. Most allies are not wedded to full-scale INF deployment, and they would welcome US initiatives that could unblock the current impasse at Geneva -- possibly including some slippage on the INF deployment schedule, a merger of the INF and START talks, and/or consideration of UK/French forces in some fashion.

While most governments believe that the Alliance had to follow through with the INF decision, many will contend that they have paid a high price domestically for fidelity to NATO's dual track decision.

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All of our allies will be eager to resume the security dialogue with the East. A ready made forum for such a process could be the upcoming Conference on Disarmament in Europe (CDE), which West Europeans are now touting as the only remaining conduit for such exchanges.

2. West European Economic Problems. The past decade has witnessed exceedingly high rates of unemployment and a pattern of public spending policies that could bring governments under increasing pressure in 1984 and lead to tensions between the United States and NATO countries over vital defense programs and longer-term economic cooperation. Over 10 percent of the labor force is now jobless and higher unemployment rates are possible -- even with modest economic recovery -- due to the rapid growth of the labor market, high labor costs and West Europe's inability to restructure its industry to compete with the newly industrializing countries (NICs) or the American and Japanese hi-tech sectors. Unable to solve its structural unemployment problems quickly, most governments will concentrate on marginal improvements by reducing working hours and providing subsidies for hiring the long-term unemployed -- measures which will do little more than redistribute the present unemployment.

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With this in prospect, Europe will be forced to seek trade opportunities where it can, particularly with Eastern Europe. To moderate government deficit problems, austere economic programs will have to balance social welfare cuts with trimmed defense spending. We do not expect to see most allies achieve anything approaching three percent real growth in military spending, and increasingly allies will tie new NATO defense commitments to explicit off-set arrangements that can provide local employment opportunities. The internal problems besetting the European Community are likely to get worse in 1984, as the conflicting interests of the French, British and West Germans make compromises difficult on budget ceilings, agricultural support programs, and EC enlargement (to include Spain and Portugal). Such intractable problems could serve to exacerbate trade disagreements with the United States -- such as in steel and agricultural goods -- and adversely affect West European attitudes toward defense spending and East-West trade issues.

3. Problems on the Flanks. The coming year is likely to be a critical one for Spain's decision to enter Europe through integration into NATO and membership in the European Community. Spaniards are more united on the advisability of joining the EC than on further military integration into NATO; and Spain is unlikely to commit its political, strategic, and manpower resources to the Alliance without assurance of its access to the economic benefits of EC membership. Spain, however, will press for EC accession in 1984, when political disarray in the Community over throney budget and other issues will make enlargement prospects problematical. A rejection by the EC, will almost certainly postpone prospects for Spain's fuller commitment to the Alliance. This would be a major political setback for the Alliance, although Spain is likely to revert to bilateral military arrangements with the US and West European countries.

The unilateral declaration of independence by the Turkish Cypriots in the waning days of 1983 is likely to complicate the search for a Cyprus settlement in 1984 and frustrate the solution of other disputed Aegean issues between Athens and Ankara. Greek-Turkish antagonisms will [redacted]

[redacted] force the US to continue to balance the often incompatible objectives of two important allies.

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